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Rating Update: **MOODY'S AFFIRMS THE Aa2 RATING OF CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK INFRASTRUCTURE STATE REVOLVING FUND PROGRAM; OUTLOOK REMAINS STABLE**

Global Credit Research - 07 Jul 2011

APPROXIMATELY $133 MILLION OF OUTSTANDING DEBT AFFECTED

California Infrastructure Revolving Fund
State Revolving Funds
CA

Opinion

NEW YORK, Jul 7, 2011 -- Moody's Investors Service has affirmed the Aa2 rating of California Infrastructure and Economic Development Bank ("I-Bank") Infrastructure State Revolving Fund Program ("Program") Bonds Series 2004, 2005 and 2008, affecting approximately $132,850,000 of outstanding debt. The outlook on the bonds remains stable.

RATINGS RATIONALE

The I-Bank is a financing authority in the state of California whose mission is to finance a variety of infrastructure and development projects, and carries out its mission through the Program, which is a revolving loan fund that provides low-cost financing to local entities.

The bonds are primarily secured by the loan repayments of pledged borrowers, as well as debt service reserves, interest earnings on reserves and funds in the master indenture's cross collateral and equity accounts.

The Aa2 rating is based upon the program's default tolerance and overcollateralization of assets to outstanding debt, and is consistent with the overall credit quality and characteristics of the loan portfolio.

STRENGTHS

* Recent cash flow projections demonstrate a 28% default tolerance.

* The Program maintains an asset-to-debt ratio of 2.4x as of 3/31/2011.

* Strong, proactive management which undertakes thorough surveillance of its borrower portfolio.

CHALLENGES

* The loan portfolio exhibits some weak characteristics, including individual borrowers which are experiencing narrowing debt service coverage levels and fiscal pressures.

DETAILED CREDIT DISCUSSION

Program Exhibits Strength in Default Tolerance, Overcollateralization

The default tolerance and asset-to-debt ratio provide much of the credit strength for the Program. Cash flow projections as of 12/31/2010 demonstrate a 28% default tolerance. This feature speaks to the Program's ability to withstand sizeable and immediate defaults, and to continue to meet all debt obligations. Additionally, the Program demonstrates a 2.4x asset-to-debt ratio, most of which is derived from the $301 million loan portfolio compared to $133 million of bonds outstanding. Accounts held by the trustee, such as the fully funded Debt Service Reserve Fund ("DSRF"), also contribute to the strong ratio.

Loan Portfolio Exhibits Average Credit Quality, Some Signs of Weakness

Following an internal credit assessment of the loan portfolio we have determined the weighted average rating to be A3, however at least 18% of the 75 unique borrowers possess a rating equivalent in the Baa-or-below range. The pool as a whole is considered to be of average credit quality, though the concentration of lower rated borrowers is viewed as a credit weakness.

The top 5 borrowers comprise 23% of the pool while borrowers of less than 1% make up 21%. These features are considered credit positives because they mitigate the risks associated with a single borrower default.

The loans are secured by a variety of pledges including revenues, leases and tax allocations. Tax allocations - highly vulnerable pledges that are generally weak due to geographic concentration - account for roughly 20% of the pool's loans based on amount outstanding. We have taken the unique characteristics of these pledges into consideration and have adjusted our credit assessment of these borrowers accordingly.

Although the Program has never experienced a default, management has identified narrowing debt service coverage levels and increasing fiscal pressure for some of the participants. I-Bank management initiated corrective action in May 2011 with Bear Valley

Community Services District (1.02% of the total portfolio) which had previously failed to maintain compliance with its rate covenant. The borrower agreed to establish a fund in which money was deposited in order to meet its minimum debt service coverage requirement. BVCS is now in compliance and has made all scheduled payments.

Proactive Management

I-Bank's management has employed a timely and rigorous surveillance system which proactively identifies weak participants through use of financial indicators, such as debt service coverage. A thorough monitoring process allows I-Bank's staff to act promptly in the event there could be a distressed borrower - such as BVCS. We believe that management's experience can also mitigate other risks that are associated with an inexperienced staff, such as poor bond program management.

Outlook

WHAT COULD MAKE THE RATING GO UP

* A significant improvement in the borrower pool's credit quality.

WHAT COULD MAKE THE RATING GO DOWN

* Any event - such as a borrower default or downgrade - that we believe has a material negative impact on the portfolio's credit quality.

* An increase in leverage through future bond issuances that has a negative effect on default tolerance or asset-to-debt ratio that is not consistent with the Program's current rating.

KEY INDICATORS

Weighted Average Portfolio Rating: A3

Top 5 Borrowers: 23%

Borrowers of less than 1%: 21%

Unique Borrowers: 75

Asset-to-Debt Ratio: 2.41x

Default Tolerance: 28%

The principal methodology used in this rating was U.S. State Revolving Fund Debt published in July 2010.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings and public information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of maintaining a credit rating.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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